

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 338 – HB 564

March 4, 2011

SUMMARY OF BILL: Exempts the retail sale of test strips and lancets, used for measuring blood glucose levels as it relates to diabetes, from state and local sales tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$4,196,300

Decrease Local Revenue - \$1,772,800

Assumptions:

- Based on information provided by the Department of Revenue (DOR), the national diabetes test strips market and the national lancets market will generate approximately \$4.4 billion in sales during FY11-12 (\$3.7 billion from test strips and \$0.7 billion from lancets). These numbers are assumed to remain constant in subsequent years.
- According to the U.S. Census, the estimated population in Tennessee during 2009 was 6,296,254; the estimated population for the United States is currently 308,745,538. Therefore, the population in Tennessee is approximately 2.04 percent of the national population ($6,296,254 / 308,745,538$).
- Tennessee accounts for 2.04 percent of the national test strips market and the national lancets market, the equivalent of \$89,760,000 in statewide sales (\$4.4 billion x 2.04%).
- According to DOR, test strips and lancets used by non-profit organizations are exempt from sales tax under current law. Thirty percent of sales in Tennessee from both markets are sales tax exempt. As a result, approximately \$26,928,000 ($\$89,760,000 \times 30\%$) in sales will be sales tax exempt under current law.
- Taxable sales from both markets occurring in Tennessee are estimated to be \$62,832,000 per year ($\$89,760,000 - \$26,928,000$).
- A state sales tax rate of 7.0 percent and a local option sales tax rate of 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments are apportioned 4.5925 percent of state sales tax revenue as state-shared tax revenue.
- The net recurring decrease in state revenue will be \$4,196,251 per year [$(\$62,832,000 \times 7.0\%) - (\$62,832,000 \times 7.0\% \times 4.5925\%)$].
- The recurring decrease to local government revenue will be \$1,772,789 per year [$(\$62,832,000 \times 2.5\%) + (\$62,832,000 \times 7.0\% \times 4.5925\%)$].

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/rnc